

FY07 – What does Pre-tax/After-tax Mean?

You may choose to pay your health and dental premiums on either a pre-tax or an after-tax basis. Simply put, pre-tax means that the premiums are deducted before the tax is calculated and deducted; after-tax means that premiums are deducted after the tax is calculated and deducted. The State's Salary Reduction Plan governs pre-tax premiums. If you have any questions, please contact your department's human resources office.

Why choose pre-tax contributions?

Pre-tax premiums reduce your taxable income, meaning that the amount of income in your pay that is used to calculate your taxes is reduced because your premiums have been deducted. This reduces your federal and state income tax liability. The higher your income tax bracket, the greater your tax savings will be.

What are the consequences of pre-tax contributions? You won't be able to make changes mid-year.

Your election of pre-tax premiums is irrevocable for the Plan Year except in very limited circumstances called Qualifying Status Changes, as defined by the IRS and the Salary Reduction Plan. This means that in most cases you will not be able to make changes to or cancel your plans outside of Open Enrollment. Mid-year changes from pre-tax to post-tax and vice versa are also not permitted by the terms of the Salary Reduction Plan. Financial difficulties or hardships ARE NOT circumstances that allow changes to or cancellations of plans. Refer to the Salary Reduction Plan Document and to the Irrevocability Rules for information regarding the limited circumstances under which you may be permitted to change elections outside of Open Enrollment.

What's another consequence of pre-tax deductions? They can affect your PERA retirement benefits.

Pre-tax premiums can affect your highest average salary (HAS) in calculating your retirement benefits under the Public Employee Retirement Association (PERA). PERA benefits are based on the average of your three highest annual salaries, and salaries generally increase with years of service. If you are within four years of retirement and you are at your highest career salary level, pre-tax premiums could reduce your PERA benefit. Therefore, you should consider carefully the effect of salary reductions, including pre-tax premiums, on your retirement benefits. Changing your mind about retirement during the Plan Year will NOT enable you to change your contributions from pre-tax to post-tax. This is true also of pre-tax salary reduction contributions to Flexible Spending Accounts. For more information about PERA benefits, call 800-759-7372.

Remember that with pre-tax deductions, your take-home pay will be greater, but your PERA contribution and Medicare Tax (where applicable) will be based on your reduced salary.

Why choose after-tax contributions?

Unlike electing pre-tax premiums, electing post-tax contributions is not an irrevocable choice, meaning it enables you to make changes to your benefits outside of open enrollment. However, if you elect after-tax contributions you may **ONLY DROP ALL OF YOUR HEALTH AND/OR DENTAL COVERAGE FOR YOU AND ALL OF YOUR DEPENDENTS** for the

remainder of the Plan Year. Once coverage is dropped, you cannot re-enroll until the next Open Enrollment.

Review Your Selection Annually

As your circumstances can change every year, you must review your selection for your health and dental premiums during every Open Enrollment. **Mid-year or retroactive election changes are NOT permitted.** Flexible Spending Account elections must be renewed each year, so please review

You are expected to be familiar with the terms and conditions of each plan you select. Plan documents are readily available on the Web site for your review. If you have questions about benefit options, enrollment or eligibility, please contact your agency's Benefit Administrator, available through the link below. Questions about specific claims and coverage levels should be addressed directly to your insurance provider.